

AR13

ad cover

Lib

THE PETROL OIL AND GAS COMPANY LIMITED

630 SIXTH AVENUE S.W.
CALGARY, ALBERTA, CANADA
T2P 0T2



First Half
Interim Report 1974

EXPLORATION AND DEVELOPMENT

Decalta International Corporation

Your Company owns a 15% share interest in this corporation (D.I.C.), which holds interests in the United States and other lands. Some of the activities of this corporation are reviewed below.

Overseas

Indonesia. The first of three wells is now drilling on the 67,800 acre Suban Djerigi Technical Assistance Contract Area; the well is expected to reach total depth at 9,000 feet. As a result of detailed seismic surveys, locations have now been picked for the second and third wells. These wells will be drilled consecutively. Potential zones are the Palembang sand series, the Baturadga Limestone and the Talang Akar Sandstone. The Palembang and Talang Akar have produced significant amounts of oil in South Sumatra. An agreement was reached with the Toyo Oil Development Corporation of Japan whereby for a large cash consideration, the Toyo Oil Development Corporation purchased a 25% interest in the project. D.I.C. now has a 15% interest in this Contract Area.

Philippines. D.I.C. and associates have an option to earn a 90% interest in 1,000,000 acres in the Sibuyan Sea in the Philippines by doing seismic and then drilling a well. The preliminary seismic has been completed and D.I.C. has elected to proceed to the next stage by doing detailed seismic. This detailed seismic program was completed in July. D.I.C. will have a 45% interest in this project.

Kenya. Negotiations have been taking place for a considerable time on a seismic option covering 1,200,000 acres offshore Kenya. Progress has been delayed pending legislation in Kenya. The legislation that will enable the granting of new offshore concessions is now before the Kenya Parliament and it is anticipated that this project will proceed in early 1975. D.I.C. has a 50% interest in this seismic option.

Other Areas. There has been no further progress in our applications for drilling rights in Peru, Norway, and Portugal. In Guatemala, we await a drilling rig which is expected to be on location in December, 1974.

United States

Texas and Louisiana Offshore. D.I.C. now has an interest in 16 Blocks in the Texas and Louisiana Offshore having acquired an interest in four additional Blocks at the lease sale of May 29, 1974. Interests in the Blocks vary between 1.04% and 2.6%. D.I.C. participated in the drilling of twenty-three exploratory wells resulting in the partial evaluation of 10 Blocks. Drilling is continuing on these Blocks and wells will be drilled on the remaining six Blocks in the near future. A development program will be started on some of the Blocks as sufficient hydrocarbons have been discovered as a result of the drilling to-date. Four drilling and production platforms have been ordered for Blocks 330, 340, 474, and 563. Additional delineation drilling is required to design platforms for other Blocks. Production is expected to start from this area early in 1976.

Canada

East Coast Offshore. Considerable interest is being shown by the industry in the announcements of several wells to be drilled on the Canadian East Coast offshore. Last year the Bjarni H-81 well was reported as having oil shows. This well is located some 30 miles south from a 285,000 acre block in which Petrol owns a 5% interest. The Eastcan Group has announced its intention of re-entering the Bjarni H-81 for further testing during 1974. The Group has also announced its intention to drill Eastcan et al Gudrid G-75, some 80 miles southeast of Bjarni. To the south, offshore Newfoundland, B. P. Columbia Bonavista C-99 is currently drilling. This well is located some 100 miles southeast of an 886,000 acre block in which Petrol owns a 5% interest. This summer, Petrol and its associates will undertake a seismic program covering both of its acreage

blocks. The program will tie-in the above mentioned wells to assist in the evaluation of the potential of the Company's properties.

Alberta. During the first half of 1974, Petrol has continued its search for additional gas reserves, particularly in the Esther, Hussar-Mallow and Hotchkiss areas of Alberta. Owing to the higher prices currently being offered for natural gas in these areas, the economic viability of connecting some 22 previously completed gas wells, in which Petrol has varying interests, appears to be imminent. In order to prove-up additional reserves and to expand deliverability capacity in these areas, the Company and its associates have prepared a 20 to 25 well drilling program for the last half of 1974. Your Company however, is forced to keep this program under review pending clarification of the newly elected Canadian federal government's proposed income tax changes.

In the Esther area of east central Alberta, the Company owns interests in 11 completed gas wells and proposes to drill an additional 4 wells prior to the year end. In the Hussar-Mallow area of southeast Alberta, the Company owns interests in 21 completed gas wells and expects to participate in the drilling of between 15 and 20 wells in this area during the second half of the year. At Hotchkiss, in the northwest area of Alberta, 6 completed gas wells, in which the Company owns a small interest, await pipeline connections and one additional well location has been selected.

Apart from the three areas noted above, Petrol expects to participate in the drilling of some 5 to 10 additional wells in other areas of Alberta during the second half of 1974.

PRODUCTION

Gross crude oil production (before deducting royalties) amounted to 290,000 barrels (1602 barrels daily) compared with 212,000 barrels (1,171 barrels daily) in the same period last year. Reflecting the impact of higher provincial royalties, however, net oil production (after deducting royalties) totalled 205,000 barrels vs

166,000 barrels last year. Natural gas liquids produced during the same period, amounted to 20,000 and 13,000 net barrels respectively. Deliveries of natural gas (after royalties) rose to 505 million cubic feet from 377 million last year.

FINANCIAL

First Half 1974

Petrol's net income for the first six months was \$366,000 (9.2¢ per share) compared with \$137,000 (3.4¢ per share) in the equivalent 1973 period, restated to reflect tax allocation (see Notes to Consolidated Statement of Income).

Cash flow from operations amounted to \$851,000 (21.3¢ per share) up from \$401,000 (10.0¢ per share) in the first half of 1973.

Petrol's revenues increased due to higher production volumes of crude oil and natural gas at improved prices. Higher operating costs and increased royalty payments to provincial governments partially offset these gains. The prime source of production increases was from the Company's properties at Simonette, Alberta.

Revenue from crude oil sales totalled \$1,017,000 during the first half of 1974, an increase of \$485,000 over the sales of \$532,000 in the comparable period last year. Natural gas sales amounted to \$99,000 vs \$47,000 and natural gas liquid sales were \$65,000 and \$23,000 respectively. Total cash expenses amounted to \$338,000 this year compared with \$214,000 last year.

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	First Half	
	1974	1973
Income		
Net oil and gas sales . .	\$1,189,000	\$ 607,000
Interest income	—	8,000
	<u>1,189,000</u>	<u>615,000</u>
Cash Expenses		
Production	215,000	163,000
General and Administrative	53,000	39,000
Interest	70,000	12,000
	<u>338,000</u>	<u>214,000</u>
Cash Flow from Operations	851,000	401,000
Depreciation and depletion	335,000	192,000
Income before equity in earnings of affiliated company	516,000	209,000
Equity in earnings of affiliated company	30,000	1,000
Income before deferred income taxes	546,000	210,000
Deferred income taxes . .	180,000	73,000
Net Income	<u>\$ 366,000</u>	<u>\$ 137,000</u>
Cash Flow		
per common share	21.3¢	10.0¢
Net Income		
per common share	9.2¢	3.4¢

See accompanying notes.

NOTES TO CONSOLIDATED STATEMENT OF INCOME

Note 1

In prior years, the Company in accordance with the general practice in the oil and gas industry, made no provision for deferred income taxes in respect of claiming deductions for drilling, exploration and lease acquisition costs incurred in amounts which exceed the related depletion charges in the accounts and accordingly no income taxes were payable.

As of January 1, 1974 the Company retroactively adopted tax allocation accounting. Under tax allocation, deferred income taxes are provided to the extent that current income taxes have been reduced by claiming excess deductions for capital cost allowances and drilling, exploration and lease acquisition

costs. Retroactive adoption of tax allocation accounting resulted in a cumulative provision for deferred income taxes applicable to prior years of \$1,140,000 at January 1, 1974.

The adoption of tax allocation accounting has resulted in a reduction in net income after providing for deferred income taxes of \$180,000 (4.5¢ per share) in the first half of 1974 and \$73,000 (1.9¢ per share) in the first half of 1973 as compared with the net income previously reported.

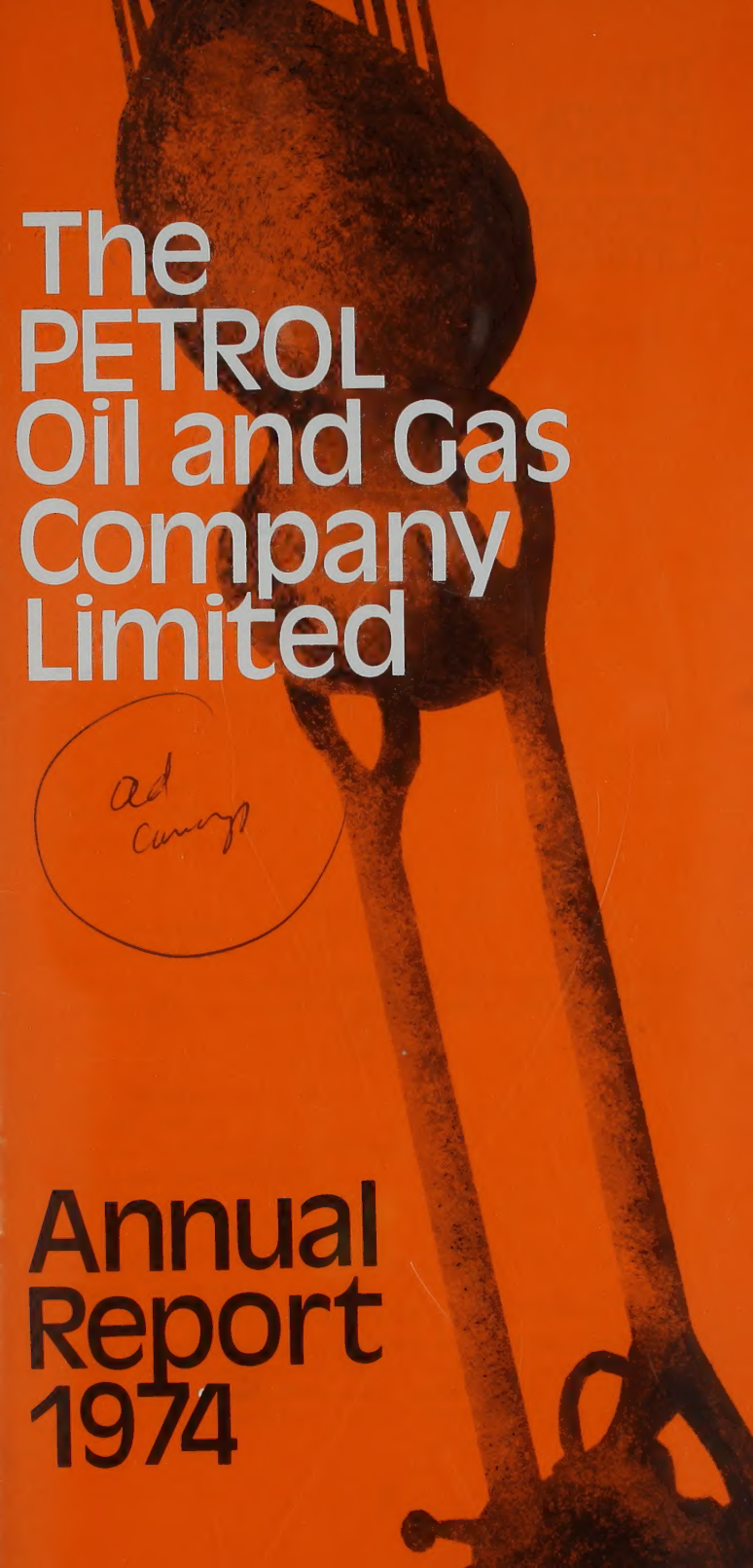
Note 2

The 1973 figures have been adjusted from those previously reported to reflect certain 1973 year end audit adjustments which had no effect on net income and to reflect deferred income taxes as described in Note 1.

SOURCE AND APPLICATION OF FUNDS

(unaudited)

	First Half	
	1974	1973
Source of Funds		
Cash flow from operations	\$ 851,000	\$ 401,000
Application of Funds		
Land acquisition and rentals	123,000	81,000
Geological and geophysical	31,000	59,000
Non-productive drilling	20,000	41,000
Productive drilling and equipment	164,000	636,000
	<u>338,000</u>	<u>817,000</u>
Retirement of production payments	202,000	288,000
Investment in affiliated company	—	15,000
	<u>540,000</u>	<u>1,120,000</u>
Increase (Decrease) in Working Capital	311,000	(719,000)
Working capital (deficiency) at beginning of period	(1,047,000)	590,000
Working capital (deficiency) at end of period	<u>\$ (736,000)</u>	<u>\$ (129,000)</u>
Production		
Oil and condensate gross barrels	290,000	212,000
net barrels	205,000	166,000
Natural gas —		
gross MCF	550,000	422,000
net MCF	505,000	377,000



The PETROL Oil and Gas Company Limited

*ad
campaign*

Annual Report 1974

The PETROL Oil and Gas Company Limited

Annual Meeting

The annual meeting of the shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 24, 1975 at 2:00 p.m., local time. A formal notice of the meeting together with a proxy form and information circular, is enclosed with this report.

Officers and Directors

C. S. Lee

Calgary, Alberta

President of the Company

Chairman of Western Decalta Petroleum Limited

Director of Hudson Bay Mining and Smelting Co., Limited

A. H. Ross

Calgary, Alberta

Vice-President of the Company

President of Western Decalta Petroleum Limited

President of Consolidated West Petroleum Limited

L. G. Elhatton

Calgary, Alberta

Secretary-Treasurer of the Company

Secretary of Western Decalta Petroleum Limited

H. J. Howard

Calgary, Alberta

Retired Executive

H. A. McKenzie

Toronto, Ontario

President of Hudson Bay Mining and Smelting Co., Limited

Director of Anglo American Corporation of Canada Limited

F. R. Matthews, Q.C.

Calgary, Alberta

Partner of MacKimmie Matthews

Barristers and Solicitors

R. Tetrault

Calgary, Alberta

President of Alberta White Trucks (Calgary) Limited

Summary of the Year 1974

	<u>1974</u>	<u>1973</u>
FINANCIAL		
Gross income	\$2,616,000	\$1,614,000
Cash flow	1,837,000	1,053,000
Per share — ¢	46.0	26.3
Depreciation and depletion	525,000	433,000
Equity in earnings of affiliated company	2,000	6,000
Income taxes	350,000	215,000
Net Income	964,000	411,000
Per share — ¢	24.1	10.3
Working capital (deficiency)	(268,000)	(1,047,000)
Exploration and development	\$ 718,000	\$1,416,000
Outstanding shares	3,995,000	3,995,000

OPERATING

Gross production (before royalty)		
Oil & NGL — barrels	605,000	516,000
Natural gas — mcf	1,149,000	840,000
Gross reserves — proven and probable additional		
Oil & NGL — gross barrels	8,516,000	8,724,000
Natural gas — gross mcf	33,800,000	32,000,000
Sulphur — long tons	84,000	86,000
Land Holdings		
Gross acres	11,946,000	11,897,000
Net acres	451,000	450,000

President's Letter

In a year of significant changes, Petrol's 1974 consolidated net income rose to \$964,000 from \$411,000 in 1973. Earnings per share were 24.1¢ compared with 10.3¢ in the previous year. The earnings reported for 1973 have been adjusted to reflect tax allocation accounting, such changes being more fully described in the financial sections of this report.

Cash flow from operations amounted to \$1,837,000 in 1974 (\$1,053,000 in 1973). On a per share basis, cash flow for the two years was 46.0¢ and 26.3¢ respectively.

Higher volumes of production and substantial increases in prices received for petroleum products, contributed to Petrol's improved earnings in 1974. Adversely affecting such earnings were increases in royalty rates, changes in income tax laws and increased operating costs.

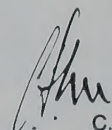
The Company's expenditures for exploration and development totalled \$718,000 in 1974, down from \$1,416,000 in 1973 when major outlays were made for gas processing plant facilities.

While Canadian petroleum product prices increased materially during 1974, most of the increase was offset by higher provincial royalty rates and changes in the federal income tax policies. Exports of crude oil and natural gas liquids were approximately 21% below the level of 1973 as a result of an increase in the Canadian export tax. In December 1974, the Canadian government announced plans to gradually reduce exports of crude oil to the United States, unless major new discoveries are made. This move could have some adverse effects upon the 1975 volume of production from the Company's properties at Simonette, Alberta. While a higher price for Canadian crude oil is expected to be realized as a result of a federal-provincial first ministers' meeting to be held in April 1975, it is still uncertain how much of the increase will be passed through to the producer and explorer.

The exploration section of this report describes the Company's increasing participation in foreign ventures through its 15% equity in Decalta International Corporation.

On behalf of the Board, I would like to thank each of the talented and dedicated people who have contributed during 1974 to the affairs and interest of the Company and its shareholders.

March 21, 1975
Calgary, Alberta


C. S. Lee
President

Production

Gross crude oil and natural gas liquids production (before deducting royalties) amounted to 605,000 barrels (1,658 barrels daily) in 1974 compared with 516,000 barrels (1,414 barrels daily) in 1973, an increase of 17.2%. The increase was attributable to higher production rates from the Simonette D3 field in Alberta.

Petrol's net production of crude oil and natural gas liquids (after deducting royalties) amounted to 416,000 barrels, a decrease of 11,000 (2.6%) from 427,000 barrels in 1973. The decrease resulted primarily from higher royalty rates imposed in Alberta.

The Company's gross sales of natural gas in 1974 rose to 1,149 million cubic feet from 840 million cubic feet last year, again the increase (36.8%) was mainly attributable to production at Simonette. Net gas sales (after royalties) totalled 1,039 million cubic feet in 1974 compared with 764 million cubic feet in 1973.

During 1975, production of crude oil, natural gas liquids and natural gas from the Simonette field may not reach 1974 volume levels as the Canadian government plans to gradually reduce exports of crude oil to the United States. Higher prices for Canadian crude oil and natural gas are expected to be realized during 1975, however shareholders are cautioned that the Company realizes only a minor portion of the price increment to meet increasing operating costs and to provide funds necessary to find and develop new reserves; the balance of the price increases goes to governments in the form of higher royalties and income taxes.



GROSS OIL AND NGL PRODUCTION BY FIELDS (Thousands of Barrels)

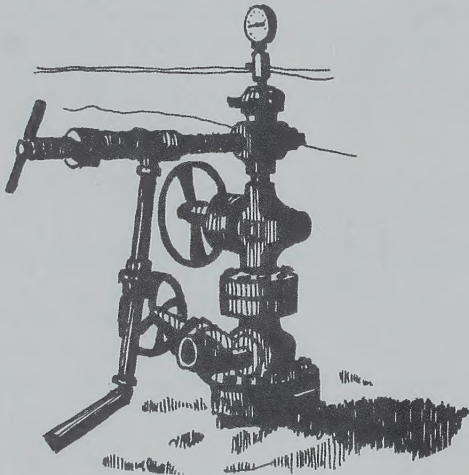
	1974	1973	1972	1971	1970
ALBERTA					
Fenn	36	40	29	20	17
Mitsue	35	37	33	33	30
Pembina:					
Cardium	59	69	74	77	73
Belly River	65	57	26	23	21
Simonette	319	213	178	136	113
Swan Hills	5	4	5	7	7
Turner Valley	51	56	61	21	20
Other	9	12	14	9	7
	579	488	420	326	288
SASKATCHEWAN					
Instow	6	6	6	6	7
Other	8	7	6	6	5
	14	13	12	12	12
BRITISH COLUMBIA	1	2	2	2	1
UNITED STATES	11	13	17	17	12
	605	516	451	357	313

GROSS GAS PRODUCTION BY FIELDS (Millions of Cubic Feet)

	1974	1973	1972	1971	1970
ALBERTA					
Ashmont	136	96	112	66	166
Ghost Pine	35	37	24	13	67
Gordondale	—	—	—	22	29
Hussar	73	18	122	96	—
Pembina	25	27	25	39	41
Simonette	651	417	377	266	210
Turner Valley	183	202	277	31	34
Other	29	18	19	12	6
	1,132	815	956	545	553
BRITISH COLUMBIA	3	1	1	—	—
SASKATCHEWAN	6	7	5	6	14
UNITED STATES	8	17	10	16	7
	1,149	840	972	567	574

Reserves

At December 31, 1974, total proven and probable reserves of crude oil and natural gas liquids before deducting royalties were estimated at 8.5 million barrels compared with 8.7 million barrels last year. Natural gas reserves increased from 32.0 billion cubic feet in 1973 to 34.0 billion cubic feet in 1974. Sulphur reserves were relatively constant at 84,000 long tons in 1974 (86,000 long tons in 1973).



Proven and Probable Additional Reserves
December 31,

	1974	1973
Oil & NGL — gross barrels . . .	8,516,000	8,724,000
Natural gas — gross mcf	33,800,000	32,000,000
Sulphur — long tons	84,000	86,000

Exploration and Development

DECALTA INTERNATIONAL CORPORATION

Your Company owns a 15% share interest in this corporation (D.I.C.), which holds interests in the United States and other lands. Some of the activities of this corporation are reviewed below.

UNITED STATES

Texas (offshore)

In the offshore Texas area of the Gulf of Mexico, D.I.C. is continuing to participate in additional acquisitions, obtaining interests in 5 tracts in 1974 for a cumulative total of 16 tracts to date. It has now participated in a total of 31 wells drilled offshore Texas. Five platforms have been ordered with delivery of the first platform expected in the summer of 1975. The Federal Power Commission has recently increased the price which can be paid for interstate gas to 51¢ per Mcf. In addition, it would appear that the Company could be eligible for the special small producer category, and therefore, could receive in the order of 50% more, or approximately 77¢ per Mcf. Prices are expected to advance further by the time (probably 1977) that gas can be sold in volume from these properties. It is anticipated that these properties will make a significant contribution to D.I.C.'s cash flow, commencing in 1977.

OVERSEAS

Indonesia

Prior to completion of detailed seismic surveys and the start of the first-well in Southern Sumatra, D.I.C. and associates sold 25% of their interest in the project to the Toyo Oil Corporation for a significant cash settlement. D.I.C. retains a 15% interest in the 67,800 acre Technical Assistance Contract area. Early in 1974 a detailed seismic survey was conducted over some of the prospects revealed in the initial survey. The first well, Kampong Minyak No. 1 was completed as an oilwell from a

sand at 1,373 feet. During a brief test, the well flowed at a rate equivalent to 408 bbls. per day of 50° API crude.

The second well, Liling Langoe No. 1, was drilled to a total depth of 8,645 feet and was abandoned as a dry hole as was the third well, Kampong Minyak No. 2, drilled southwest of Kampong Minyak No. 1 on a separate prospect. The rig was then moved onto the Kampong Minyak structure to drill evaluation wells so that the scope of the development program could be ascertained. At year's end, the first of these wells, KM No. 55/24-77, was completed as an oilwell. Subsequent to this, and up to February 1, 1975, two additional wells have been drilled resulting in one oilwell and one dry hole. Testing of the successful wells is underway to assist in determining the future program for this area. Until payout is reached, 35% of the value of the production is paid to the contracting parties at the crude oil export price, currently about \$12.00 per barrel and 23% of the value is paid to the contracting parties at a price of approximately \$6.00 per barrel. After payout, the contracting parties receive revenue for 35% of the production value at the \$6.00 per barrel price.

Guatemala

Following seismic and preparatory work, the first of two wells (Manglar No. 1) is expected to spud early in March, 1975, offshore Puerto Barrios. The evaluation wells will be drilled to 6,500 feet and will test the Rio Dulce formation (Lower Miocene). D.I.C.'s interest is 8.67% of the cost of drilling for a 4.33% working interest in 611,500 acres.

In Belize, offshore and joining the Guatemala acreage to the north, D.I.C. has the right to earn an 8.5% interest in 979,000 acres by paying a share of the cost of a seismic program, which is about to commence. This acreage may be held beyond December 31, 1975 provided a well has been drilled or is drilling.

Philippines

During 1974 two generations of seismic were conducted on the Sibuyan seismic option. This seismic option covers an area slightly in excess of 1,000,000 acres. D.I.C. group must elect by June 30, 1975, to either drop the option or drill to earn a 90% interest in the acreage. Currently the detailed seismic is being replayed in order to reach this decision. D.I.C.'s interest in this project is 40%.

OTHER OVERSEAS AREAS

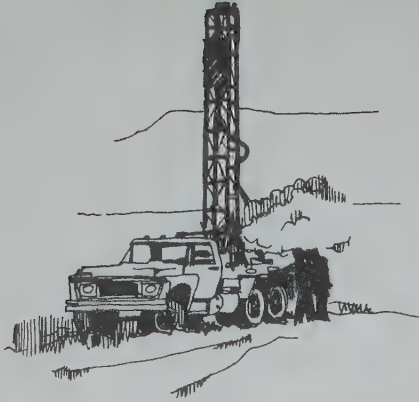
In Norway, applications are still pending. In Kenya, an application for 1,200,000 acres is waiting on satisfactory Government legislation. The legislation dealing with oil and gas exploration is now progressing through the legislature and is expected to be passed in the near future. D.I.C. has a 50% interest in this seismic option. Negotiations are being conducted in a number of other countries at this time.

GENERAL

D.I.C. has opened an office in Denver, Colorado to handle exploration and development of its various properties in the United States, particularly the producing and exploration properties of the Hickerson Oil Company, acquired in 1974.

CANADA

In addition to drilling activity conducted by D.I.C. during 1974, the Company participated directly in the drilling of 33 gross development and exploration wells in Alberta. Petrol's average interest in these wells was 6.2% or the equivalent of 2.0 net wells. The drilling program resulted in 25 gross (1.5 net)



oil and gas wells and 8 gross (0.5 net) dry holes. Successful drilling results have provided several areas for further development, such as Hotchkiss (250 miles north of Edmonton), Esther (east of Calgary), Buck Lake and Pembina (west of Edmonton) and others. At Great Bear Lake, in the Northwest Territories, at year end, a well was drilled at no cost to the Company on a 562,000-acre property; this well was subsequently abandoned. The Company has also participated in a seismic program offshore Labrador, where the Company has a 5% interest in 1,171,000 acres of which 285,000 acres are located 30 miles north of the Bjarni well which has discovered gas and condensate.

Acreage Holdings

At December 31, 1974, the Company owned varying interests in 11,946,000 gross acres equivalent to 451,000 net acres; comparative figures for 1973 were 11,897,000 gross acres and 450,000 net acres. Although additions were made to the Company's land portfolio in Alberta and British Columbia, the overall acreage position changed little from last year. A summary of acreage holdings by area is shown in the statistical section of this report.

Financial

Petrol's consolidated net income in 1974 of \$964,000 recorded a gain of 134% over 1973, after restatement of 1973 to reflect tax allocation accounting. Earnings per common share amounted to 24.1¢ and 10.3¢ respectively. The improved earnings reflect higher product prices and volumes sold partially offset by increased governmental royalty payments, higher taxes in Canada and inflationary operating cost factors.

Gross income totalled \$2,616,000 during 1974 (\$1,614,000 in 1973) and total cash expenses were \$779,000 as compared with \$561,000 in the previous year.

Cash flow from operations totalled \$1,837,000, a 74% increase over 1973 at \$1,053,000. Cash flow per share for 1974 and 1973 was 46.0¢ and 26.3¢ respectively.

Expenditures for finding, developing and acquiring reserves amounted to \$718,000 in 1974; such outlays totalled \$1,416,000 in 1973. A summary of the sources and use of funds is shown in the Statement of Changes in Financial Position.



CONSOLIDATED BALANCE SHEET

December 31, 1974 and 1973

ASSETS

	1974	1973
CURRENT:		
Cash	\$ 16,000	
Accounts receivable	118,000	\$ 89,000
Income tax rebates receivable (Note 4)	215,000	
Due from affiliated company	31,000	
Prepaid expenses	11,000	9,000
	<u>391,000</u>	<u>98,000</u>
REFUNDABLE DEPOSITS	<u>1,000</u>	<u>1,000</u>
INVESTMENT IN AFFILIATED COMPANY (Note 3)	<u>1,373,000</u>	<u>1,371,000</u>
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$2,664,000 (1973 — \$2,340,000)	4,126,000	4,021,000
Plant and equipment less accumulated depreciation of \$1,191,000 (1973 — \$1,020,000)	1,707,000	1,619,000
	<u>5,833,000</u>	<u>5,640,000</u>
OTHER:		
Sundry investments at cost	2,000	2,000
	<u>\$7,600,000</u>	<u>\$7,112,000</u>

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
THE PETROL OIL & GAS COMPANY, LIMITED

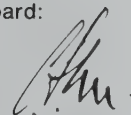
We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1974 and 1973 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

THE PETROL OIL & GAS COMPANY, LIMITED AND SUBSIDIARY COMPANIES

LIABILITIES

	1974	1973
CURRENT:		
Bank overdraft		\$ 18,000
Accounts payable and accrued charges	\$ 9,000	399,000
Income taxes payable (Note 4)	250,000	
Due to parent company	400,000	728,000
	<u>659,000</u>	<u>1,145,000</u>
PRODUCTION BANK LOAN (Note 5)	<u>480,000</u>	<u>600,000</u>
DEFERRED INCOME TAXES	<u>1,455,000</u>	<u>1,140,000</u>
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized — 8,000,000 shares of no par value		
Issued — 3,995,000 shares	2,744,000	2,744,000
Retained earnings	2,262,000	1,298,000
	<u>5,006,000</u>	<u>4,042,000</u>
	<u>\$7,600,000</u>	<u>\$7,112,000</u>

On behalf of the Board:



Director.



Director.

In our opinion these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1974 and 1973, the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change to income tax allocation accounting, which we approve, as explained in Note 2 to the consolidated financial statements.

Calgary, Canada.
February 20, 1975.

CLARKSON, GORDON & CO.
Chartered Accountants.

CONSOLIDATED STATEMENT OF INCOME

For The Years Ended December 31, 1974 and 1973

	1974	1973
Net oil and gas sales	\$2,616,000	\$1,611,000
Interest and other income		3,000
	<u>2,616,000</u>	<u>1,614,000</u>
Deduct:		
Production expenses	543,000	428,000
General and administrative expenses	99,000	69,000
Interest expense —		
Long term debt	62,000	18,000
Other	75,000	46,000
	<u>779,000</u>	<u>561,000</u>
Cash flow from operations	1,837,000	1,053,000
Depreciation and depletion	525,000	433,000
Income before equity in earnings of affiliated company	1,312,000	620,000
Equity in earnings of affiliated company (Note 3)	2,000	6,000
Income before income taxes	1,314,000	626,000
Income taxes (Note 4)	350,000	215,000
Net income for the year (Note 2)	<u>\$ 964,000</u>	<u>\$ 411,000</u>
Net income per common share	24.1¢	10.3¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For The Years Ended December 31, 1974 and 1973

	1974	1973
Retained earnings at beginning of year		
As previously reported	\$2,438,000	\$1,812,000
Less adjustment of prior years' income taxes	1,140,000	925,000
As restated	1,298,000	887,000
Net income for the year	964,000	411,000
Retained earnings at end of year	<u>\$2,262,000</u>	<u>\$1,298,000</u>

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For The Years Ended December 31, 1974 and 1973

	1974	1973
Source of funds:		
Cash flow from operations	\$1,837,000	\$ 1,053,000
Less income taxes payable	35,000	
	<u>1,802,000</u>	<u>1,053,000</u>
Sale of production payments		100,000
Production bank loan		600,000
Total funds provided	<u>1,802,000</u>	<u>1,753,000</u>
Application of funds:		
Additions to property and equipment	718,000	1,416,000
Retirement of production payments	185,000	609,000
Repayments of production bank loan	120,000	
Investment in affiliated company		1,365,000
Total funds applied	<u>1,023,000</u>	<u>3,390,000</u>
Increase (decrease) in working capital	779,000	(1,637,000)
Working capital (deficiency) at beginning of year	<u>(1,047,000)</u>	<u>590,000</u>
Working capital (deficiency) at end of year	<u>\$ (268,000)</u>	<u>\$(1,047,000)</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974 and December 31, 1973

1. Summary of accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of all subsidiaries. The excess of the unamortized cost of purchased subsidiaries over the related net asset values at dates of purchase is included in oil and gas properties.

(b) Full-cost method of accounting

The Companies follow the full-cost method of accounting wherein all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized and are depleted on the composite unit of production method based on estimated proven reserves of oil and gas.

(c) Depreciation

Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets. The Companies depreciate lease and well equipment (10%) and gas plants (5%) on the straight line basis and other tangible assets on the reducing balance basis.

(d) Investment in affiliated company

The Companies account for this investment as a corporate joint venture and, accordingly, the investment is carried at cost plus equity in undistributed earnings since acquisition.

(e) Income taxes

The Companies follow tax allocation accounting whereby deferred income taxes are provided to the extent that current income taxes have been reduced as a result of claiming deductions for capital cost allowances and drilling, exploration and lease acquisition costs in excess of the related charges in the accounts.

2. Change in accounting policy

In previous years the Companies followed the policy of recording income taxes only to the extent they were currently payable. As of January 1, 1974 the Companies retroactively adopted tax allocation accounting. The effect of this change was to decrease 1974 net income by \$315,000 or 7.9¢ per share (\$215,000 or 5.4¢ per share in 1973). The 1973 amounts in the accompanying financial statements have been restated accordingly.

3. Investment in affiliated company

The Companies own a 15% equity interest in Decalta International Corporation. The remaining 85% is owned by other subsidiaries of the Company's parent, Western Decalta Petroleum Limited.

Details of the investment are:	1974	1973
15,000 common shares	\$ 15,000	\$ 15,000
13,500 preferred shares	1,350,000	1,350,000
Equity in the earnings since the date of acquisition	8,000	6,000
	<u>\$1,373,000</u>	<u>\$1,371,000</u>

The financial position of Decalta International Corporation at December 31, 1974 and 1973 is summarized as follows:

Working capital (deficiency)	\$(1,262,000)	\$ 311,000
Property and equipment at cost less accumulated depreciation and depletion of \$768,000 (1973 — \$169,000)	15,096,000	8,832,000
	<u>\$13,834,000</u>	<u>\$9,143,000</u>
Long term debt	\$ 4,678,000	
Share capital issued and outstanding		
100,000 common shares	100,000	\$ 100,000
90,000 preferred shares	9,000,000	9,000,000
Retained earnings	56,000	43,000
	<u>9,156,000</u>	<u>9,143,000</u>
	<u>\$13,834,000</u>	<u>\$9,143,000</u>

The accounting policies followed by Decalta International Corporation are essentially the same as those followed by the Companies.

4. Income taxes

On November 18, 1974 the Canadian Government introduced budgetary proposals to amend the Income Tax Act. These included a number of changes, several having retroactive effect to the date of an earlier budget on May 6, 1974, that will substantially increase the income taxes of the resource industries. The proposals, among other measures, deny the deduction of royalties and similar payments to governments and impose limitations on the deduction of certain development expenses and depletion allowances. They are accompanied by some reduction in the rate of income tax applicable to resource production profits. Responding to this action, some provinces are proposing certain rebates in order to provide a measure of relief to resource companies from the additional Federal tax levies. Since the legislative amendments have not yet been enacted and some of the proposals by provincial governments have not yet been set out in sufficient detail to remove doubt as to their ultimate effect, their impact has been estimated for the purposes of the 1974 income tax provision.

5. Production bank loan

The production bank loan is secured by assignment of the Company's interest in certain oil and gas producing properties and is repayable out of the proceeds of production from such properties.

6. Statutory information

Remuneration of directors and senior officers charged to income during 1974 and 1973 amounted to \$2,000 and \$1,000 respectively.

Summary of Acreage Holdings

Area:	Petroleum and Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
CANADA						
Alberta	800,800	52,200	153,100	6,500	953,900	58,700
British Columbia	46,900	500	55,100	9,900	102,000	10,400
Hudson Bay			308,300	15,400	308,300	15,400
New Brunswick	22,400	1,700			22,400	1,700
Newfoundland (offshore)			1,630,200	73,900	1,630,200	73,900
Northern Canada:						
Northwest Territories	11,400	600	2,934,500	121,000	2,945,900	121,600
Arctic Islands			5,221,300	128,400	5,221,300	128,400
Beaufort Sea			628,000	36,700	628,000	36,700
Saskatchewan	58,700	3,200			58,700	3,200
UNITED STATES						
Alaska	74,900	700			74,900	700
	1,015,100	58,900	10,930,500	391,800	11,945,600	450,700

* Convertible into leases to the extent of approximately 50%.

ANALYSIS OF GROSS INCOME

(Thousands of dollars)

	1974	1973	1972	1971	1970
Crude Oil	\$2,137	1,414	1,013	860	689
Natural Gas					
Liquids	157	50	48	5	5
Natural Gas	289	127	113	72	69
Royalty Revenue	33	20	6	6	5
Net Oil and Gas Sales	2,616	1,611	1,180	943	768
Interest and					
Other Income	—	3	52	56	5
	<u>\$2,616</u>	<u>1,614</u>	<u>1,232</u>	<u>999</u>	<u>773</u>

EXPENDITURES FOR FINDING AND DEVELOPING

(Thousands of dollars)

	1974	1973	1972	1971	1970
Land and Rentals	\$ 184	137	142	315	64
Geological and					
Geophysical	47	37	149	57	28
Non-productive Drilling	60	133	149	76	55
Productive Drilling	123	114	65	70	34
Productive Equipment	304	995	442	144	101
	<u>\$ 718</u>	<u>1,416</u>	<u>947</u>	<u>662</u>	<u>282</u>

Five Year Statistical Review

	1974	1973	1972	1971	1970
INCOME					
Net oil and gas sales	\$ 2,616	1,611	1,180	943	768
Interest and other income	—	3	52	56	5
Gross Income	2,616	1,614	1,232	999	773
EXPENSES					
Production	543	428	317	238	195
General and administrative	99	69	69	72	68
Interest	137	64	38	45	13
Total	779	561	424	355	276
CASH FLOW FROM OPERATIONS	1,837	1,053	808	644	497
Per share — ¢	46.0	26.3	20.2	16.1	12.4
OTHER					
Depreciation and depletion	525	433	318	233	199
Equity in earnings of affiliated company	(2)	(6)	—	—	—
Income taxes	350	215	165	140	105
NET INCOME	964	411	325	271	193
Per share — ¢	24.1	10.3	8.1	6.8	4.8
WORKING CAPITAL (DEFICIENCY)	(268)	(1,047)	590	1,212	1,028
EXPENDITURES					
Exploration and development	718	1,416	947	662	282
PRODUCTION					
Oil & NGL — gross barrels	605	516	452	357	312
Natural gas — gross mcf	1,149	840	972	567	574
Oil & NGL — net barrels	416	427	381	298	261
Natural gas — net mcf	1,039	764	858	501	500
RESERVES (2)					
Oil & NGL — gross barrels	8,516	8,724	9,322	8,884	8,232
Natural gas — gross mcf	33,800	32,000	29,300	23,800	22,900
LAND HOLDINGS					
Gross acres	11,946	11,897	11,659	11,518	11,786
Net acres	451	450	437	477	487
SHARES OUTSTANDING	3,995	3,995	3,995	3,995	3,995

Notes

(1) The above statistics are for The Petrol Oil & Gas Company, Limited and its wholly-owned subsidiaries. With the exception of per share figures, amounts are in thousands.

(2) Includes proven and probable additional reserves.

TRANSFER AGENTS

Crown Trust Company
302 Bay Street,
Toronto, Ontario M5K 1C5

HEAD OFFICE

36th Flr., Toronto-Dominion Centre,
Toronto, Ontario M5H 2P4

EXECUTIVE OFFICE

630 - 6th Avenue S.W.,
Calgary, Alberta, Canada T2P 0T2
Phone (403) 269-5551

LISTING

Toronto Stock Exchange

SUBSIDIARY COMPANIES

The Petrol Oil and Gas Corporation
Petrol Mineral Enterprises Ltd.

